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SIPDIS

STATE FOR NEA/ELA AND EEB/IFD/OMA AND EEB/EPPD  
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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [EAID](#) [KTEX](#) [JO](#)

SUBJECT: FINANCIAL CRISIS HITS JORDAN IN SPITE OF DOMESTIC FISCAL  
CONSERVATISM

REFS: A) 08 STATE 134459  
B) 08 AMMAN 3267  
C) 08 AMMAN 3122  
D) 08 AMMAN 2928

**¶1.** (SBU) Summary: Although Jordan's conservative banking and mortgage practices have partially protected the country from the international financial crisis, Jordan's economy is still suffering from a credit crunch; falling real estate prices and cancelled development projects; a general business slowdown; and a stock market that has lost 37% of its market capitalization. For most Jordanians, inflation remains their top economic concern. Jordanian officials are watching the Gulf's financial challenges closely, in fear that the problems in Dubai and elsewhere will result in decreased foreign aid and investment, lost jobs and remittances from Jordanians working in the Gulf, and a slowdown in GDP growth. Some optimists point out that Jordan could benefit from lower fuel costs and that Gulf businesses may redirect investments from the U.S. and Europe to Jordan. End Summary.

Worldwide Crisis Creates Local Credit Crunch

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**¶2.** (SBU) Across the public and private sector, interlocutors praised the conservative policies of the Central Bank of Jordan (CBJ) with keeping Jordan partially protected from the worldwide financial crisis. CBJ has long restricted the amount and risk-level of mortgages, and no sub-prime mortgage equivalent exists in Jordan. Issa Gammoh, Deputy CEO of the Jordan Investment Board, said that Jordan was now reaping the benefits of financially-sound banks and strong laws and regulations that have held up to external pressure. Non-performing loans total just 4% of all money lent, and mortgages have a very low default rate. CBJ Deputy Governor Kholoud Saqqaf said that CBJ has met with all banks several times since the crisis began to encourage the granting of credit to qualified borrowers, and the Prime Minister has guaranteed all deposits to unlimited amounts in Jordanian banks for 2009.

**¶3.** (SBU) In spite of strong banking practices, Jordan is now experiencing a serious credit crunch. Executive Privatization Commission (EPC) consultant Salem Ghawi said that banks have been adding restrictions and become even more conservative. He said financing of large projects is becoming very difficult, and EPC is working with the World Bank to set up a guarantee fund to encourage investments. Gammoh said that large investors have still been able to find banking partners if they have collateral. Capital Investments General Manager Samer Sunnoqrot noted however that increasingly 100% cash collateral for loans is necessary, in cases where previously just 10-20% was required. Several small

businessmen, including food traders and farmers, have complained that 100% collateral has made business operations difficult but that such credit is needed to run and expand their businesses. Sunnoqrot predicted that in 2009, banks will remain selective in their credit and opined that by tightening credit, they have made the financial situation worse. Although CBJ lowered rates by 1% in November, Sunnoqrot opined that rates must be lowered by at least another 1%. He cited a recent Federal Reserve decrease with no corresponding change in CBJ policies as indicative of the excessive conservatism.

#### Real Estate Hurting

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**¶14.** (SBU) Although sales remained strong in the first three quarters of 2008, the real estate sector is now reported to be among the hardest hit by the crisis and tightened credit. Abu Judom Real Estate Company President David Abu Judom estimated that most commercial prices have recently fallen 20%. He said two large office buildings planned for Amman's business district have been cancelled, as has a large housing development in the Dead Sea. He said commercial property owners are reluctant to lower prices but speculated that their own bank financing and repayment requirements will necessitate such changes. Foursan Private Equity Partner Nashat Masri predicted many more project cancellations. Local press reported January 7 residential housing prices fell 10% in the fourth quarter of 2008 and that further declines are expected with the current weak demand. During the week of January 18, the Ministry of Labor, the Ministry of Finance, and the private real estate sector plan to submit a joint proposal to the Council of Ministers seeking support and loans for real estate projects that have been frozen by the credit crisis.

AMMAN 00000136 002 OF 003

#### Businesses Brace for Rough 2009

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**¶15.** (SBU) Although business sales were generally up in 2008 over 2007, most business owners across industries are bracing for a difficult year in 2009. The tourism sector, which saw a significant spike from Europe in 2008, is predicting significant declines in 2009. One owner of an inbound tour company said that his sales are down 25% and that he continues to receive cancellations, which he attributes to the worldwide financial crisis. Jordan estimates that its garment exports to the U.S. declined 15% in the first ten months of 2008 compared to the same period in 2007 and employment in the sector has fallen by 13% (ref B). Vehicle sales are reported to have fallen 50%. At least one businessman, however, Bassam Mohsen, Commercial Vice President for Jordan Aviation, a private charter company, said that his company has actually benefited by having cash on-hand during the worldwide crisis and has been able to purchase used aircraft and spare parts at low prices and has recruited pilots laid-off by other companies.

#### Stock Market Falls

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**¶16.** (SBU) In June 2008 before the crisis, the Amman Stock Exchange's (ASE) market capitalization peaked at \$57 billion based on growth in potash and phosphate companies. The ASE has since fallen 37% to \$35.8 billion, which several businessmen noted is less than comparable Gulf exchanges. The ASE is dominated by its financial services sector and Saqqaf said that the fall in market capitalization is unrelated to bank performance and that the sector's third quarter fundamentals were strong. Sunnoqrot explained that while much of the decline can be attributed to the worldwide retreat from stocks, some of the pullout was also related to fears created by the domestic pyramid scandal that was uncovered in the fall of 2008 (ref D).

#### Inflation Remains the Top Concern of Most Jordanians

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**¶17.** (SBU) While the real estate and stock market declines have primarily hurt affluent Jordanians, average Jordanians continue to be most affected by Jordan's inflation. After suffering through

inflation that peaked at 19% in July 2008, Jordanians have gotten some post-crisis price relief with falling world fuel prices. Jordan's consumer price index, after rising for 15 straight months, fell slightly in October, November, and December. The inflation rate for 2008 averaged 14.9% and 2009 inflation is projected at 6%.

#### Watching Dubai Anxiously and Fearing the Worst

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¶8. (SBU) Jordanian officials and businessmen are paying close attention to the economic situation in the Gulf, especially Dubai, fearing dire consequences for Jordanian employment, investment, and aid. Saqqaf explained that Jordan's falling unemployment rates, from a recent high of 15.4% in 2006 to 12% at the end of 2008, are a result of increased Gulf hiring, rather than domestic job creation. She feared that the Gulf's slowing economy will result in job loss and will sharply reduce its ability to absorb future Jordanian workers. Abu Judom said that 20,000 Jordanians working in Dubai have already lost their jobs. These layoffs are particularly painful since remittances from an estimated 300,000 Jordanians working abroad totaled \$3 billion in the first 8 months of 2008, equaling 20% of GDP and larger than any industry in Jordan.

¶9. (SBU) Officials also expressed fear that tight government budgets and falling oil prices could reduce foreign aid to Jordan, especially from Saudi Arabia which donated about \$500 million in cash and oil in 2008. Similarly, businessmen say that low oil prices will also reduce investment in Jordan, since the majority of investment has been from Gulf states' petrodollars.

¶10. (SBU) Conversely, some officials and businessmen see a potential silver lining in the Gulf economic crisis. Among the potential benefits named is possible growth in foreign direct investment to Jordan as Gulf investors withdraw funds from Europe and North America. In November, JIB went to Qatar to encourage just such investment redirection (ref C). Several interlocutors believe that

AMMAN 00000136 003 OF 003

Jordan has comparative advantages of close proximity to the Gulf and a good reputation based on its highly-educated and respected expatriate workforce.

#### Recent Reporting on Financial Crisis

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08 Amman 3267 Jordan Garment Factories Face Declining Sales and Negotiate for Government Assistance

08 Amman 3173 In Spite of Government Initiatives Jordanians Are Economically Worse Off

08 Amman 2982 Jordan's Budget Deficit Grows with Bonuses and Development Projects

08 Amman 2928 Pyramid Scheme Highlights Past Regulatory Failures and Costs Citizens Millions

08 Amman 2696 Despite Slowdown in Cement Demand, Jordan's Production Capacity Set to Expand Significantly

08 Amman 2669 Second Budget Supplement Needed for Social Safety Net

08 Amman 2654 Jordan's Trade Deficit Doubles during First Half of 2008; FTA Negotiations Concluded with Canada

08 Amman 2369 Jordan's Inflation Rate for July 2008 Peaks at 19 Percent Higher than 2007 Level

08 Amman 2366 Jordanian Request for Assistance to Address Food Security Needs

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